

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 PA-01 PRS-01 /087 W

----- 019099

R 081542Z JAN 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5522

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

USMISSION USBERLIN

CINC USAFE RAMSTEIN

CINC USAREUR HEIDELBERG

CINC EUR VAIHINGEN

CINC USAFE LINDSEY

C O N F I D E N T I A L SECTION 01 OF 02 BONN 00331

DEPARTMENT PASS TREASURY, FRB AND CEA

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: KEY INDICATORS CONTINUE TO SUPPORT UPTURN  
THESIS.

1. SUMMARY. INDUSTRIAL PRODUCTION HAS CONTINUED ITS  
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STEADY CLIMB SINCE THE MID-SUMMER LOW POINT, AND IS

CURRENTLY GROWING AT A STEEP RATE. NEW ORDERS ARE UP TOO, SUGGESTING NO IMMEDIATE PROSPECTS OF ABORTING THE UPTURN WHICH UNDOUBTEDLY IS UNDERWAY. ECONOMICS MINISTER FRIDERICH'S IS RELUCTANT TO COME RIGHT OUT AND CALL IT AN "AUFSCHWUNG" OR UPTURN, BUT THIS IS REPORTEDLY A PLOY TO MODERATE LABOR'S WAGE DEMANDS IN THE CURRENT AND UPCOMING NEGOTIATIONS. END SUMMARY.

2. INDUSTRIAL PRODUCTION ROSE 2 PERCENT IN NOVEMBER OVER OCTOBER, MAKING IT THE FOURTH CONSECUTIVE MONTHLY 2 PERCENT RISE IN THE SEASONALLY-ADJUSTED INDEX. COMPARING THE FOUR MONTH AUGUST-NOVEMBER UPTURN PHASE WITH THE PREVIOUS FOUR MONTH PERIOD, THERE WAS GROWTH AT A 9 PERCENT ANNUAL RATE. IN JULY, THE INDEX STOOD AT 99; BY NOVEMBER IT HAD RISEN STEADILY TO 107 (THE OCTOBER DATA WAS REVISED UPWARD TWO POINTS TO 105). NOT SINCE THE 1968 RECOVERY HAS THERE BEEN SUCH A STEEP RISE IN THIS IMPORTANT INDICATOR OF ECONOMIC ACTIVITY. ON THE OTHER HAND, ONE YEAR EARLIER IN NOVEMBER 1974, THE INDEX WAS AT THE SLIGHTLY HIGHER LEVEL OF 108 (1970 EQUALS 100). ALSO, THE FIRST ELEVEN MONTHS OF 1975 HAVE REGISTERED INDUSTRIAL PRODUCTION SOME 7.5 PERCENT BELOW WHAT IT WAS IN THE SAME TIME FRAME IN THE PREVIOUS YEAR.

3. WE CONTINUE TO FEEL THAT THERE IS LITTLE DOUBT, AS EVIDENCED BY THE INDUSTRIAL PRODUCTION INDEX, THAT AN UPTURN IS UNDERWAY AND THAT IT BEGAN IN MID-SUMMER. ON AN ANNUAL COMPARISON, 1975 WILL STILL BE STRONGLY NEGATIVE (PERHAPS MINUS 7 PERCENT), PRIMARILY BECAUSE OF THE LOW FIRST HALF. FORECASTS OF INDUSTRIAL PRODUCTION GROWTH IN 1976 OVER 1975 RANGE FROM 5 - 6 PERCENT (ACCORDING TO ECONOMICS MINISTRY CONTACTS) TO 4 PERCENT (PER AN INDEPENDENT ECONOMIC RESEARCH INSTITUTE). THIS WOULD IMPLY THAT THE STEEP RISE OF THE LAST FOUR MONTHS (9 PERCENT ANNUAL RATE) WILL PROBABLY FLATTEN OUT IN SEASONALLY ADJUSTED TERMS OVER THE COMING MONTHS. GIVEN THE HEAVY WEIGHT OF INDUSTRIAL PRODUCTION IN THE GNP, IT IS INTERESTING TO NOTE PAST PERFORMANCE RELATIONSHIPS. IN 1968 WHEN REAL GNP ROSE 7 PERCENT, INDUSTRIAL PRODUCTION WENT UP 9.3 PERCENT. IN 1972 GNP ROSE 3.4

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PERCENT AS COMPARED TO A 4.3 PERCENT INCREASE IN INDUSTRIAL PRODUCTION.

4. IN VIEW OF THE STRONG EVIDENCE THAT AN ECONOMIC UPTURN IS IN PROCESS, WE ASKED A KNOWLEDGEABLE ECONOMICS MINISTRY CONTACT WHY MINISTER FRIDERICH'S HAS BEEN SO CAUTIOUS IN HIS RECENT PUBLIC PRONOUNCEMENTS (EXAMPLES: ON DECEMBER 24, "...I WOULD NOT SAY THAT THE UPTURN IS

ALREADY HERE....HOWEVER THERE ARE CLEAR SIGNS OF A  
REVIVAL OF THE ECONOMY..."; AND ON DECEMBER 31, "...THE  
PROSPECTS FOR AN ECONOMIC REVIVAL IN 1976 ARE BETTER  
TODAY THAN A FEW MONTHS AGO....HOWEVER....THERE IS  
ABSOLUTELY NO CLEAR CUT KNOWLEDGE TO WHAT EXTENT THE  
CYCLICAL PICKUP IS REALLY ASSURED AND HOW SUSTAINED ITS  
EFFECTS WILL BE...."). OUR MINISTRY TECHNICIAN FRIEND  
RESPONDED THAT THE DOWNPLAYING OF THE OBJECTIVELY GOOD  
ECONOMIC NEWS IS A CALCULATED EFFORT BY FRIDERICHS TO  
DAMPEN WAGE DEMANDS IN THE 1976 ROUND OF NEGOTIATIONS.  
TOO MUCH POSITIVISM ON THE ECONOMIC OUTLOOK, IT IS FELT,  
WOULD LEAD TO EXCESSIVE INCREASES IN WAGE COSTS -- THE

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CINC USAF LINDSEY

C O N F I D E N T I A L SECTION 02 OF 02 BONN 00331

CURRENT BIG FEAR OF BUSINESS AND GOVERNMENT. THIS DE-  
EMPHASIS OF UPTURN TALK, WE WERE TOLD, WOULD CONTINUE TO  
CHARACTERIZE THE MINISTRY'S PRESS RELEASES AND SPEECHES  
FOR ANOTHER MONTH OR SO, EVEN THOUGH OUR CONTACT SAID  
THERE WAS NO DOUBT THAT THE "AUF SCHWUNG" WAS IN PROGRESS  
AND THE OUTLOOK QUITE FAVORABLE.

5. THE NOVEMBER NEW ORDER DATA IS ENCOURAGING AND  
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SUPPORTS THE FEELING THAT THE UPTURN IN PROGRESS WILL  
NOT ABORT IN THE IMMEDIATE FUTURE. ON A SEASONALLY-  
ADJUSTED BASIS, THE OVERALL VOLUME INDEX ROSE NEARLY 2  
PERCENT TO 108 OVER THE OCTOBER DATA WHICH WAS REVISED  
UPWARD THREE POINTS TO 106; THIS COMPARES WITH THE  
AUGUST LOW POINT OF 97. SIGNIFICANT IS THAT DOMESTIC  
DEMAND IS SHOWING CONTINUING SIGNS OF RESURGENCE  
FOLLOWING THE POST-INVESTMENT-BONUS HOLE OF AUGUST; THE  
NOVEMBER INDEX NUMBER WAS 100 AS COMPARED WITH THE  
REVISED OCTOBER FIGURE OF 97 AND THE AUGUST LEVEL OF 91.  
EXTERNAL DEMAND AS MEASURED BY THIS INFLATION-CORRECTED  
SERIES HAS MORE OR LESS STABILIZED OVER THE PAST THREE  
MONTHS. THE INDEX NUMBERS FOR SEPTEMBER, OCTOBER AND  
NOVEMBER ARE 136, 137 (REVISED UPWARD FROM 129), AND  
134, RESPECTIVELY. THIS SHORT-TERM PLATEAUING SHOULD  
NOT MASK THE FACT THAT THESE THREE MONTHS ARE 16 PERCENT  
ABOVE THE FOREIGN ORDER VOLUME LEVEL OF THE PREVIOUS  
THREE MONTHS. FORTUNATELY, THE RECENT STALLING OF  
FOREIGN DEMAND HAS BEEN MORE THAN MATCHED BY DOMESTIC  
DEMAND VITALITY.  
HILLENBRAND

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## Message Attributes

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